

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

Annual Compliance Report, 2016

Docket No. ACR2016

CHAIRMAN'S INFORMATION REQUEST NO. 3

(Issued January 6, 2017)

To clarify the basis of information provided by the Postal Service in its FY 2016 Annual Compliance Report (ACR), filed December 29, 2016,¹ the Postal Service is requested to provide written responses to the following questions. Answers should be provided to the individual questions as soon as they are developed, but no later than January 13, 2017.

Financial Analysis

1. On page 21 of its FY 2016 Form 10-K,² the Postal Service states that “[t]otal work hours increased by approximately 30 million, or 2.6%, from [2015 to 2016]....[This increase was] in part due to the increase in work hours for city delivery and customer service operations....” Please provide all data (and data sources) showing the workhour measurements by Labor Distribution Code for FY 2015 and FY 2016.
2. On pages 50 and 51 of Library Reference USPS-FY16-17, December 29, 2016, the Postal Service discusses Total Factor Productivity (TFP). Please provide all supporting workpapers for the derivation of FY 2016 TFP.

¹ United States Postal Service FY 2016 Annual Compliance Report, December 29, 2016.

² United States Postal Service Annual Report on Form 10-K, November 15, 2016, at 21.

Consumer Access

3. In Docket No. ACR2015, the Postal Service filed a library reference with a variety of consumer access information in response to a Chairman's Information Request (CHIR).³ Please update this library reference with FY 2016 data. For the update to Excel file "ChIR.6.Q.1.Suspensions.xlsx," please add the following information for each suspended office:
 - a. Was the office part of PostPlan?
 - b. For those offices that have no indication of being in a discontinuance study, has a "plan of action"⁴ been determined for the office to restore service, secure suitable alternate quarters, or take other necessary corrective actions?
 - c. The date the plan of action was filed, if applicable.
4. Please provide the number of Self Service Kiosks (SSKs)⁵ in operation as of the end of FY 2016. Please describe any formal plan(s) for the addition of more SSKs during FY 2017.
5. In Docket No. ACR2015, the Postal Service filed a "Retail Revenue by Channel" table in response to a CHIR.⁶ Please provide an updated table for FY 2016.
6. Please provide the proportion of collection boxes for which the last mail pickup time is:
 - a. Midnight to 11:59 a.m.
 - b. Noon to 2:59 p.m.

³ Docket No. ACR2015, Library Reference USPS-FY15-45, February 3, 2016; see Docket No. ACR2015, Responses of the United States Postal Service to Questions 1-4, 8, 11, and 13-16 of Chairman's Information Request No. 6, February 3, 2016.

⁴ See United States Postal Service Handbook PO-101, *Postal Service-Operated Retail Facilities Discontinuance Guide*, October 2012, section 618 (Handbook PO-101).

⁵ Previously referred to as Automated Postal Centers (APCs).

⁶ Docket No. ACR2015, Responses of the United States Postal Service to Questions 5-7, 9-10, 12, and 17-28 of Chairman's Information Request No. 6, January 29, 2016, question 6.

- c. 3:00 p.m. to 4:59 p.m.
- d. 5:00 p.m. to 6:59 p.m.
- e. 7:00 p.m. to 11:59 p.m.

Additionally, please differentiate between weekdays and weekends, if applicable.

- 7. Please confirm that the Postal Service has not updated Handbook PO-101 since October 1, 2012.⁷ If not confirmed, please provide the updated handbook.

International Mail

Inbound Letter Post—Quality of Service Link to Terminal Dues

- 8. For CY 2015, please provide the final monthly, quarterly, and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the International Post Corporation (IPC) or its contractor.
- 9. For CY 2016, please provide the preliminary or final monthly, quarterly, and annual quality of service measurement results for the link to terminal dues provided to the Postal Service by the IPC or its contractor. If preliminary or final results are not available, please provide the expected date of availability.
- 10. Please report whether the Postal Service met the Universal Postal Union (UPU) quality of service measurement targets during CY 2015 or CY 2016. If it did not meet the targets for either CY 2016 or CY2016, please provide the amount of forfeited revenue for each quarter and annual period.

Inbound Express Mail Service (EMS)

- 11. Please provide the Postal Service's EMS Cooperative report card for Quarter 4 of CY 2015 and its annual report card for CY 2015.

⁷ See Handbook PO-101 at iv.

12. Please provide the Postal Service's preliminary or final EMS Cooperative monthly, quarterly, and annual report cards for CY 2016. If preliminary or final report cards are unavailable, please provide the expected date of availability.

Inbound EMS and the Kahala Posts Group (KPG)

13. Please confirm that during FY 2016 the EMS Cooperative Pay-for-Performance Plan was applicable to all KPG members who entered Inbound EMS into the U.S. If not confirmed, please identify which KPG members that entered Inbound EMS into the U.S. were not subject to the EMS Cooperative Pay-for-Performance Plan and explain why the EMS Cooperative Pay-for-Performance Plan was not applicable to those KPG members.
14. The KPG Strategic Services Agreement describes the conditions for date-certain delivery performance in which late delivery results in penalties in the form of a postage refund. Please provide all fiscal year, calendar year, and/or quarterly reports that measure the service performance of Inbound EMS from KPG-member posts with respect to late deliveries, penalties, and any other service performance metrics, including the number of late deliveries for which a postage refund was made and the total amount of such refunds in FY 2016 for each KPG-member post.

International Money Transfer Service (IMTS)

15. For the IMTS—Outbound and Inbound products during FY 2016, please provide the total number of In-Office Cost System (IOCS) tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95-percent confidence interval for the cost coverage.
16. Please provide an updated FY 2016 version of Excel file "ChIR.2.Q.10.IMTS.xlsx," filed in Docket No. ACR2015, Library Reference USPS-FY15-NP31, January 15, 2016.

**Inbound Market Dominant Multi-Service Agreements
with Foreign Postal Operators 1 (Multi-Service Agreements)**

17. For the two Multi-Service Agreements with cost coverage below 100 percent, please provide estimated revenue at UPU rates that demonstrates that the agreement is an improvement in the Postal Service's net financial position.
18. If either of the above-referenced Multi-Service Agreements does not improve the net financial position of the Postal Service over UPU rates, please discuss what steps the Postal Service is taking to improve its cost coverage.

Inbound Parcel Post (at UPU rates)

19. For CY 2015 and CY 2016, please provide the required service features for bonus payments under the UPU inward land rate bonus system and the corresponding bonus percentages.
20. For Quarter 4 and all of CY 2015, please provide final Quarter 4 and annual service performance measurements for purposes of the inward land rate bonus.
21. For CY 2016, please provide the results of the Postal Service's preliminary or final quarterly and annual service performance measurements for purposes of the inward land rate bonus. If preliminary or final results are not available, please provide the expected date of availability.
22. If the Postal Service did not meet the service feature requirements for a UPU inward land rate bonus, please provide the amount of forfeited revenue for CY 2015 and for CY 2016 available to date.
23. For the Inbound Parcel Post (at UPU rates) product, please provide the total number of IOCS tallies, the coefficient of variation for the IOCS-based cost estimate, and the 95-percent confidence interval for the cost coverage.

International Negotiated Service Agreements (NSAs)

24. Please provide revenue, volume, weight, and attributable costs data for the following international NSA dockets similar to the data for other international NSA dockets filed with Library Reference USPS-FY16-NP2, December 29, 2016, Excel file "NSA Summary (Unified).xls," tab "Summary ICRA16." If the data are not available, please explain.

CP2011-54
CP2013-28
CP2015-40
CP2015-67
CP2015-71
CP2015-87
CP2015-101
CP2015-103
CP2015-115
CP2015-130
CP2015-131
CP2016-44
CP2016-89
CP2016-119
CP2016-144
CP2016-157
CP2016-168
CP2016-186
CP2016-192
CP2016-193
CP2016-201
CP2016-205
CP2016-234
CP2016-246
CP2016-250
CP2016-251
CP2016-269
CP2016-270

25. Please refer to Library Reference USPS-FY16-NP2. Please resubmit Excel file "ICM Costing.xlsm," tab "Data," and Excel file "NSA Summary (Unified).xls," tab "Merged ICM Data," with the vendor and customer data in columns BG and BH and columns BJ and BK included.
26. Please provide an Excel file that contains source data for the Docket No. CP2014-71 revenue, pieces, and weight information included in Library Reference USPS-FY16-NP2, Excel file "ICM Costing.xlsm," tab "Data," and Excel file "NSA Summary (Unified).xls," tab "Merged ICM Data." Please provide this source file in the same format as was provided in Docket No. ACR2015, Library Reference USPS-FY15-NP2, December 29, 2015.
27. Please disaggregate the volume, revenue, and cost of Inbound Registered Mail between market dominant Inbound Registered Services Agreement 1 and the UPU supplemental rates for registered items.

PHI Acquisition, Inc. (PHI) NSA

28. Please explain why the price structure changes that were implemented in Docket No. R2015-4 (*i.e.*, movement of mail from one rate cell to another, such as Carrier Route pieces moving to Standard Mail Flats Sequencing System (FSS) pieces) were not included in the original net financial value calculation of the PHI NSA.
29. The following questions refer to Docket No. ACR2015, Library Reference USPS-FY15-30, December 29, 2015, Excel file "FY15 30 ACR_NSA_2015.xlsx," tab "2_MC2014-21 PHI NSA." Quarters 1, 2, and 3 of Contract Year 1 (columns S, T, and U) show zero volume and zero revenue for Standard Mail Flats. Quarter 4 (column V) shows volume and revenue for Standard Mail Flats.
 - a. Please confirm that PHI began mailing Standard Mail Flats after the implementation of the Docket No. R2015-4 prices, which included the FSS price structure change.

- b. Please provide the percentage of PHI Carrier Route, High Density, and High Plus volume that destined in FSS zones in FY 2015 Quarters 1, 2, and 3.
 - c. Please provide the percentage of PHI Carrier Route, High Density, and High Plus volume that destined in Non-FSS zones in Quarters 1, 2, and 3.
30. At the time of filing the PHI NSA, the average unit cost for Contract Year 1 was estimated to be \$0.179.⁸ In the FY 2015 ACR, the average unit cost for Contract Year 1 was \$0.187.⁹ In the FY 2016 ACR, the average unit cost for Contract Year 2 was \$0.216.¹⁰
- a. Please explain, in detail, why the average unit cost rose by over 15 percent from Contract Year 1 to Contract Year 2.
 - b. Please provide a quantitative analysis of costs from Contract Year 1 to Contract Year 2 for the mail pieces destined for FSS zones, including mail pieces that were sent at Carrier Route Basic prices in Contract Year 1 but were destined for FSS zones and incurred FSS mail processing costs instead of Carrier Route mail processing costs.
 - c. Has the Postal Service considered developing mailer-specific cost data in order to more accurately measure the net financial value of the PHI NSA?
31. The following table compares the estimated product mail mix of the PHI NSA from the original filing to the actual product mail mix for Contract Year 1 and

⁸ See Docket Nos. MC2014-21 and R2014-6, Notice of the United States Postal Service of Filing of Contract and Supporting Data and Request to Add PHI Acquisitions, Inc. Negotiated Service Agreement to the Market-Dominant Product List, March 5, 2014, Excel file "PHI_NSA_Financials.FINAL.xlsx," tab "3_Revenue and Cost," cell L20 (Notice).

⁹ Docket No. ACR2015, Library Reference USPS-FY15-30, Excel file "FY15 30 ACR_NSA_2015.xlsx," tab "2_MC2014-21 PHI NSA," cell L43.

¹⁰ Library Reference USPS-FY16-30, December 29, 2016, Excel file "FY16 30 ACR_NSA_2016.xlsx," tab "2_MC2014-21 PHI NSA," cell L34.

Contract Year 2.¹¹ The table also contains the unit cost, unit revenue, and unit contribution for the product mail mix.

	Estimate for Contract Year 1	Actual Contract Year 1	Estimate for Contract Year 2	Actual Contract Year 2
Percent Carrier Route	100%	98.83%	100%	85.35%
Average Unit Cost	\$0.179	\$0.187	\$0.184	\$0.216
Average Unit Revenue	\$0.233	\$0.233	\$0.237	\$0.237
Average Unit Contribution	\$0.054	\$0.045	\$0.053	\$0.021

In light of price structure changes and subsequent mail mix changes, has the Postal Service amended the PHI NSA? If so, please explain how (e.g., to include only Carrier Route). If not, please explain why not.

32. In Order No. 3610, the Commission approved the removal of the Postal Service's FSS price categories.¹² Has the Postal Service reassessed the projected net financial value of the PHI NSA for Contract Years 3, 4, and 5 based on the price structure changes approved in Order No. 3610? If so:

- a. Please provide an updated estimate of the net financial value of the PHI NSA over the course of the entire contract (e.g., Contract Years 1-5 in total); and

¹¹ See Docket Nos. MC2014-21 and R2014-6, Notice, Excel file "PHI_NSA_Financials.FINAL.xlsx," tab "3_Revenue and Cost;" see Docket No. ACR2015, Library Reference USPS-FY15-30, Excel file "FY15 30 ACR_NSA_2015.xlsx," tab "2_MC2014-21 PHI NSA;" see Library Reference USPS-FY16-30, Excel file "FY16 30 ACR_NSA_2016.xlsx," tab "2_MC2014-21 PHI NSA."

¹² Docket No. R2017-1, Order on Price Adjustments for First-Class Mail, Standard Mail, Periodicals, and Package Services Products and Related Mail Classification Changes, November 15, 2016, at 16 (Order No. 3610); see also Docket No. R2017-1, United States Postal Service Notice of Market Dominant Price Adjustment, October 12, 2016, at 13.

- b. Please provide estimates for the mail mix percentage (Standard Mail Flats versus Carrier Route), unit revenue, and unit cost for Contract Years 3, 4, and 5.
- c. If not, please explain why not.

Product Tracking and Reporting System (PTR) and Product Tracking System (PTS)

33. In Docket No. ACR2016, Library Reference USPS-FY16-29, the Postal Service states that service performance for market dominant parcels is measured using an internal system called the “Product Tracking and Reporting System (PTR).”¹³ In Docket No. ACR2015, Library Reference USPS-FY15-29, the Postal Service asserted that service performance for market dominant parcels was measured using an internal system called the “Product Tracking System (PTS).”¹⁴ Please explain all data, methods, and volumes for both PTS and PTR in FY 2015 and FY 2016. Additionally, please describe all differences between these systems.

By the Chairman.

Robert G. Taub

¹³ Docket No. ACR2016, Library Reference USPS-FY16-29, December 29, 2016, “FY16-29 Service Performance Report.pdf,” at 2-3.

¹⁴ Docket No. ACR2015, Library Reference USPS-FY15-29, December 29, 2015, “Service Performance ACR FY15.pdf,” at 2-3.